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SUBJECT: FRANCE ON ENERGY SECURITY

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¶1. (SBU) Summary. French energy security policy centers on energy independence, security of supply through diversification, affordable but competitive energy prices via vertically-integrated utility companies, and low-carbon economic growth. French activism in pushing its civilian nuclear know-how will continue as the GOF encourages further development of third and fourth generation nuclear plants. France has diversified natural gas supplies and will pursue a "triangular" relationship with Russia and the Caspian Basin as it looks both to find new supplier relationships, and to shore up existing partnerships. Strong investments in energy efficiency in buildings and transport, and a commitment to boosting renewables, rounds out the GOF's approach to energy security. The Sarkozy government considers the sector as "strategic" and will continue to favor strong vertically-integrated national champions and to oppose the European Commission's aim of a fully liberalized gas/electricity market. This message provides an overview of French energy security policy based on meetings with energy sector specialists in French government, research agencies, NGOs, and the private sector. Our interlocutors provided a largely consistent view of how France sees its energy security going forward. End summary.

¶2. (SBU) France's primary energy supply mix informs its approach to energy security policy. In 30 years its consumption pattern has evolved from 68 percent oil and 16 percent coal (followed by natural gas, nuclear, hydro and other renewables), to 41 percent nuclear, 33 percent oil, and 15 percent natural gas (followed by coal, hydro and renewables). France's vision is to have an energy mix that is two-thirds carbon free by 2050. The GOF intends to get there with a combination of domestic and international policies that expand the nuclear civilian sector, develop a renewable energy industry, foster strategic partnerships in wind and solar, increase liquefied natural gas capacity and introduce robust energy efficiency measures to control demand.

Nuclear in the Lead

¶3. (U) The preponderance of nuclear-generated electricity meets the domestic aims of low-carbon energy, price stability, energy independence and climate change. France's 58 nuclear reactors cover 77 percent of national electricity needs. The French see their nuclear know-how not only as key to domestic supply, but also as a commercial interest in pursuit of which global energy supplies can be diversified and

energy markets stabilized.

¶4. (U) The GOF and French industry aggressively promote France's nuclear know-how. President Sarkozy has signed deals for the third generation European Pressurized Reactors (EPR) at home and abroad, including contracts with China, India, and the UAE. The GOF also signed MOUs with Algeria and Libya to develop a civilian nuclear industry. The GOF complements its commercial policy with an agenda in international fora that encourages expanded use of nuclear energy within a framework of improved governance and safety in energy trade and investment. France is an active participant in the Global Nuclear Energy Partnership (GNEP) and other groups that support the development of civilian nuclear power.

¶5. (SBU) The energy security agenda is closely intertwined with France's commercial policy and its promotion of national champions in the energy sector. President Sarkozy designated GDF-Suez a partner in France's second EPR project, due to come on stream in 2017, to promote it as an international exporter in the global nuclear civilian renaissance. As Areva's German partner Siemens withdraws from the joint venture that is developing the EPR, Total has confirmed its "double digit" stake in the second EPR to be constructed in France (at Penly), a move blessed by President Sarkozy. While Sarkozy has encouraged the emergence of an all-French integrated power sector champion in the wake of Siemens' announced departure, Total is reserved about the President's suggestion that it invest in Areva. (Note: The latter will

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require recapitalization to finance decommissioning and a move toward third generation EPRS. President Sarkozy has suggested that Areva's capital be opened to Alstom and Bouygues, a move resisted by Areva CEO Anne Lauvergeon. End note.)

¶6. (SBU) To meet the EPR challenge, Areva is increasing uranium and ingot production domestically and internationally. Areva renewed its agreement with Kazakhstan to secure uranium supplies until 2039 and is pursuing construction of a uranium enrichment plant in Eagle Rock, Idaho. More longstanding is France's role in establishing international standards on the management of peaceful uses of highly-enriched uranium. Working with IEA, France wants a greater role for the recently-created French Agency for International Nuclear (AFNI) in establishing blueprints for foreign governments to follow in developing civilian nuclear capabilities that meet international standards. To diversify fuel supplies, Areva has also expressed interest in the use of thorium for nuclear energy.

Turn to Emerging Markets for Nuclear

¶7. (SBU) The French intend to capture 30 percent of global new nuclear reactor sales in the coming 30 years. Areva's strategy is to create international alliances via joint ventures, with eighty percent of its sales of nuclear equipment and services going to countries with an existing nuclear industry (Finland, U.K., U.S., Canada, Italy). Under President Sarkozy the GOF is pursuing opportunities more widely (India, China, North Africa), while providing assistance to ensure that civilian nuclear development occurs within a framework of effective safeguards and verification for waste management and non-proliferation.

From Nuclear to Electricity Exports

¶8. (SBU) The nuclear renaissance underpins France's goal of becoming a major electricity exporter. In 2008, EDF boasted that half of its 64 billion euro sales came from international clients. France's electricity and gas markets are highly concentrated (EDF, GDF-Suez). In contrast to the EU Commission-favored policy of ownership unbundling, the GOF favors vertically-integrated energy companies that manage generation and distribution. EDF claims that vertical companies are more competitive, able to dampen price shocks, guarantee transport and storage of energy, and carry out cross-border investments in energy efficiency, grid connections, and research and development. The GOF sees France's national champions in electricity and gas as more able to deal with cartel-like suppliers than would a more diffuse network of market operators in a fully-liberalized regime.

LNG Prospects

¶9. (SBU) France argues its concentrated gas market supports expanding LNG capacity and shipments. France is among the top three EU states in capacity for gas storage, equivalent to nearly 30 percent of annual consumption. Two LNG terminals operate in France and four are in construction, making it a leader in Europe. The GOF aims to complement imports of natural gas with an increase in LNG terminals to boost capacity.

France and European Energy Security

¶10. (SBU) France's energy security policy is shaped by the broader goal of a single integrated and regulated European energy market, with concrete targets on renewables, GHG emissions, and global temperature cap increases. The GOF supports the six key EU energy security infrastructure projects proposed by the Commission. The projects, fully in sync with GOF goals, aim to diversify LNG gas sources and supply routes, bolster strategic natural gas stocks, and improve electrical interconnections, energy efficiency measures, and CO₂ transport and storage. That the nuclear industry remains the purview of the Member States suits France, given the

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ambivalence of some EU partners towards the nuclear option.

Dialogue and Solidarity Mechanisms

¶11. (SBU) To ensure energy supply and spread political risk, the GOF has become more active in its energy diplomacy with increasingly important oil and gas suppliers (notably Russia and Caspian Basin countries) and transit countries. The GOF continues to stress the importance of maintaining a "triangular" relationship among Russia, Central Asia and the EU. During its recent EU presidency, and afterwards, it has supported efforts to develop a southern transport route from the Caspian Basin, including the Nabucco pipeline. But in the French view, none of the various East-West pipeline projects make sense without Russian gas (doubts persist over gas supplies from Azerbaijan). The French see Turkey as a critical but problematic partner in addressing supply challenges. Turkey's potentially adverse tariff policies and its perceived willingness to use its transit country status as bargaining chip for EU accession concern the GOF. (Note: The GOF says it supports opening the

energy chapter in Turkey's EU accession talks. End note.)

¶12. (SBU) The French spend significant diplomatic energy encouraging "solidarity mechanisms" in their push for interconnectivity in gas. The GOF upholds the principle that all member states have access to oil and gas reserves in the face of supply disruptions. France emphasizes improved interconnection as a means of dealing with Eastern Europe's energy supply challenges from Russia.

A Strained Hydrocarbon Sector

¶13. (SBU) Natural gas, nuclear and renewables capture the attention, but oil will remain critical to French energy security policy. With one of the world's top four oil companies (Total), France is sensitive to the growing policy challenges of accessing reserves in an era of increasingly nationalist producer country policies. Total operates in some of the globe's more challenging political environments. France provides Total with critical political support, but not at any price. The GOF put the brakes on Total's investment in Iran last year and is prosecuting an illegal arms sale scandal known as "Angolagate" (which some observers say cost Total its position in Angola.) France imports the bulk of its oil and gas from Norway, Saudi Arabia, Russia, Kazakhstan, with North Africa/Gulf of Guinea playing an increasingly important role. French diplomacy in these countries will reflect the occasional tension between Total's narrower commercial interests, and the broader common interests for creating conditions most conducive for bringing oil to world markets.

Renewables Not Yet Competitive

¶14. (SBU) In 2007, Sarkozy added renewables and energy efficiency to France's energy security policy. To reach the EU target of 23 percent renewables by 2020, France will require 90 billion euros of private investment in the next decade. Half the growth is expected in wood and biomass for industrial and residential heating, reflecting France's large and growing forests. France also has considerable hydroelectric capacity (number two in the EU behind Sweden at 68 TWh yearly) though with little growth in the sector since 1979. ,

¶15. (SBU) French energy experts note that at this stage renewable energy does not make for a viable business model. The industry depends on a system of feed-in tariffs to provide security of long-term investment through price guarantees. Price harmonization within metropolitan France and its overseas territories is financed by consumers in the form of an electricity public service tax. State Minister Borloo announced that the GOF will put up one billion euros in the next three years for a "renewable heat fund" starting 2009 for biogas, thermal, and geothermal to encourage renewable heat for social housing, services, and industry. The heat fund will

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compliment other public aid to firms and local authorities to bring renewable-sourced heat prices five percent below the cost of heating from fossil fuels. Poweo, the private sector competitor of EDF, , argues these mechanisms fail to expose customers to fluctuating prices which incite energy conservation, innovation, and investment. However, letting prices fluctuate will be a political challenge for Sarkozy who promised to address "purchasing power" concerns.

Research and Efficiency

¶16. (SBU) More than half of France's energy research funding in the recent past has gone to fission and fusion nuclear (700-800 million euros per annum 2000-2006), and the GOF has announced its intention to allocate an additional one billion euros per year (until 2012) for energy/environment research. The President has ordered the Finance and Sustainable Development ministers to orient state-funded research to renewables. He has also pushed France's energy "champions" to invest aggressively in the sector, singling out EDF for attention. The GOF has also pushed demand-side measures to boost efficiency. Building retrofits and transport-sector measures (including bio-fuels and electric/hybrid vehicle development) are centerpieces of the strategy (Ref D).

Comment

¶17. (SBU) France's energy security policy is closely linked to its commercial pursuits in nuclear energy and the aim to be a net electricity exporter. French industry will continue to pursue international strategic alliances, while the GOF will avoid opening its national champions to foreign capital. Differences with the French over the ability of market-based mechanisms to arrive at first-best solutions, and the inevitable commercial competition in both nuclear and conventional fields, will occasionally challenge our energy relationship. But our common agenda will provide plenty of opportunities to work with the French in advancing the frontiers of nuclear and renewables know-how, and to press for a more stable relationship between hydrocarbon producing and consuming nations.

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